

**ANNUAL REPORT 2000**

**Namco Limited** has been engaged in the amusement business for more than 40 years and is a world leader in the R&D, production and sales of coin-operated game machines and home videogame software, as well as in amusement facility operations. Namco believes that the 21st century will be an "Era of Spirituality," where human factors rise in importance as a counterbalancing force to technological progress. In response, we have set the year 2001 as the starting point for a renewed Namco—one that will focus on creating services that fuse digital media with a spirit of adventure and combine high-tech with a human touch. We call this "High Touch Digital Entertainment." Since its establishment, Namco has worked to raise the level of amusement to fulfill spiritual needs with the belief that play is an important aspect of culture. We intend to continue to push the envelope of entertainment in a world where amusement knows no borders.

## Six-Year Summary

NAMCO LIMITED AND SUBSIDIARIES  
YEARS ENDED 31ST MARCH

	Millions of yen						Thousands of U.S. dollars
	1995	1996	1997	1998	1999	2000	2000
<b>For the year:</b>							
Net sales	¥ 94,475	¥110,188	¥139,808	¥145,761	¥145,517	¥148,066	\$1,394,865
Operating income	4,011	11,217	14,902	11,772	8,271	6,720	63,307
Income before income taxes	2,668	10,565	15,824	9,337	7,914	12,671	119,369
Net income	574	5,245	7,787	4,164	3,566	6,288	59,237
<b>Per share of common stock:</b>							
(in yen and U.S. dollars):							
Net income—Primary	13.16	120.10	163.94	78.60	65.82	115.00	1.08
Cash dividends applicable to the year	16.00	25.00	30.00	30.00	30.00	30.00	0.28
<b>At year-end:</b>							
Shareholders' equity	41,238	45,882	76,110	84,355	89,566	99,774	939,934
Total assets	125,932	139,181	141,492	142,992	144,120	168,567	1,588,008
<b>Number of shares outstanding:</b>							
(thousands):	43,660	43,716	51,544	53,625	54,828	55,068	

Note: U.S. dollar amounts have been translated, for convenience only, at the exchange rate of ¥106.15=U.S.\$1.

## Contents

Six-Year Summary .....	Inside Cover
Message from the Chairman .....	1
An Interview with the Management .....	4
Management's Discussion and Analysis .....	8
Consolidated Balance Sheets .....	18
Consolidated Statements of Income .....	20
Consolidated Statements of Shareholders' Equity .....	21
Consolidated Statements of Cash Flows .....	22
Notes to Consolidated Financial Statements .....	23
Independent Auditors' Report .....	27
Corporate Data/Directors and Statutory Auditors .....	28
Corporate Directory .....	Inside Back Cover

## Message from the Chairman

### Performance

In the fiscal year ended March 31, 2000, despite signs of improvement in the Japanese economy, consumer spending remained weak from the previous fiscal year as a result of increased job insecurity due to rising unemployment rate and drop in wages. These factors were primarily responsible for the prolonged harsh operating environment of the amusement industry.

Amid falling consumer spending, continued decline in sales of coin-operated game machines, reduction in the number of amusement facilities in operation and increasing selectivity of consumers have all contributed to create an even greater disparity in performance between companies within our industry.

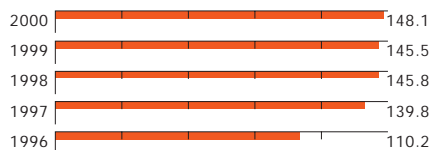
Net sales rose 1.8% and net income climbed 76.3%, including the effect of the profitable liquidation of certain securities holdings.

In the home videogame market, sales of both existing hardware platforms and software were noticeably weak amid the successive unveiling of next-generation platforms and the delayed release of major software titles. Although Sony PlayStation 2, heralded as the most prominent candidate of all next-generation platforms, was released in March 2000, its market is still in the initial stages as all attention has been focused only on its future potential.

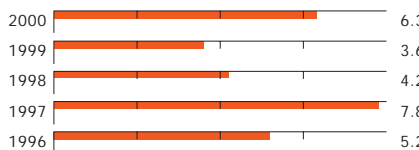
In responding to these severe operating environments, we have re-emphasized our corporate objective to shift our activities from “Amusement” to “Entertainment” and we are in the process of strengthening our vertically integrated activities of development, production, marketing and amusement facility management in Japan, North America, Europe and Asia through strict review and rationalization of these activities.

In coin-operated game machines, we have released several new models and have also utilized our marketing expertise to sell third-party products. However, with a significant trend toward weak capital investment by domestic and overseas operators, this segment of our business recorded lower sales but fortunately, higher profits.

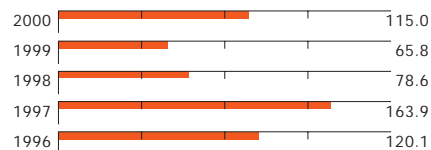
Net Sales  
(Billions of yen)



Net Income  
(Billions of yen)



Net Income per Share  
(Yen)



In home videogame software business, we have released not only hit titles for Sony PlayStation, but also launched software for Sega Dreamcast. We have also released titles to coincide with the launch of PlayStation 2 and are contributing to the formation of a solid foundation for this next-generation platform.

In amusement facility operations, we have worked to increase profitability by selectively opening large-scale, high-margin facilities while closing 43 unprofitable locations. Our U.S. subsidiary, Namco Cyberertainment Inc., is exerting continuing efforts to improve its earnings by strengthening its operating structure. In Europe, three large-scale amusement facilities known as Namco Stations which opened during the previous fiscal year are all performing favorably. In Asia, we have adopted an aggressive scrap and build strategy amid the prolonged, harsh operating environment.

While intense competition continued in the urban theme park business, we have improved our revenues through our intensive marketing activities. We have achieved very positive results through the opening of new attractions, hosting a variety of events and by developing new business opportunities by establishing strong, cooperative ties with amusement activities not traditionally associated with theme park business and with local communities.

In restaurant operations, despite the significant impact of prolonged weak consumer spending, we have improved profitability in the fiscal year under review by closing unprofitable restaurants and concentrating on improving cost efficiency.

In movies and graphics business, plans for reorganization are progressing smoothly at the newly consolidated subsidiary, Nikkatsu Corporation. Nikkatsu's period film, "*Dora-Heita*," attracted attention from a variety of sources and its director, Kon Ichikawa, was awarded the Berlinale Camera (Special Meritorious Award) at the 50th Berlin International Film Festival. Our plans call for building a network of Nikkatsu theaters and we are focusing our efforts on expanding directly managed theaters.

Despite the aforementioned harsh business environment, our consolidated net sales rose 1.8% over the previous fiscal year to ¥148,066 million, and we have achieved net income of ¥6,288 million, a 76.3% increase over the previous fiscal year. This significant increase in net income was partially attributable to a profitable liquidation of certain securities holdings.



Namco is responding to a harsh operating environment by returning to its founding principles and expressing its vision for the 21st century through the creation of "High Touch Digital Entertainment."



### Strategy

The year 2000 was a momentous beginning to the new millennium, and one in which the operating environment in the amusement industry remained harsh.

In response, we will return to our founding principles and express our vision for the 21st century through the creation of "High Touch Digital Entertainment" in line with our fundamental goal of creating new entertainment services. The ultimate goal of our pursuits is the realization of a humanistic analog-based world which, we believe, can be achieved most effectively through digital technology.

Making full use of digital technology to realize this dream, we will pursue the realization of an analog-based world in the 21st century, the "Era of Spirituality," and embrace the challenge of building new entertainment services.

In order to continue our efforts to improve return on shareholders' equity, we aim to develop more value-added businesses by maximizing the effectiveness of our corporate structure and business processes, by establishing a system and structure that accurately assesses profitability, and through our constant awareness of corporate governance. While reorganizing each division to ensure profitability, we will actively pursue partnerships and alliances with other entertainment companies, and work to achieve further expansion in amusement-related fields.

Namco is currently experiencing its fiercest operating environment in its history. Amid such conditions, with the firm resolve of improving management performance, we have enacted a 10% salary cut for corporate directors.

Namco aims to make a unified effort in embracing the promises of the New Century. To this end, we seek the understanding and support of our shareholders.

A handwritten signature in black ink, reading "Masaya Nakamura". The signature is fluid and cursive, with the first name "Masaya" and last name "Nakamura" clearly distinguishable.

Masaya Nakamura  
Chairman and Chief Executive Officer

# A Competitive Player in the World Game Industry

## Our approach to revitalizing arcade operations

**Q** What is Namco's strategy for the arcade business?

**A** In our amusement facility operations, we aim to create an entirely new concept for arcades, called a "community arcade," that will be competitive in the new age. The basic policy of the Namco Group for achieving this goal is to combine amusement facility operations with R&D to create the basis for our future business model.

The first step is to provide mutually compatible entertainment that links arcade machines with home videogame consoles. To begin with, we started providing the Slot Link System through Cyber Lead II. By actively promoting compatibility, we aim to revitalize both the arcade and the home videogame markets.

The second step is to develop amusement facilities that serve as new communication venues, with efforts focused on developing tools to supplement the communication function. For example, if arcades are linked via networks, players can compete or cooperate with people in other locations, expanding the possibilities for arcades to include meeting people from other regions.

The third step is to create places for barrier-free entertainment that exclude no one. Namco Yokohama Hustle, opened in September 1999, has attracted attention as the world's first arcade facility targeting the physically impaired. We intend to further expand this concept, making use of our accumulated knowhow to develop arcades globally that combine the functions of entertainment and welfare.

**Q** What plans do you have for your established arcade business?

**A** We intend to revitalize our established operations. The basic concept of our amusement facility operations is to raise customer satisfaction with entertainment. In April 2000, we reorganized our domestic operations with the aim of concentrating management resources into the facilities themselves, which are the points of interface with customers. Specific steps included the transfer of approximately 120 talented staff from headquarters to facilities. We expect greater facility management capabilities to lead to higher profits, and by streamlining administrative divisions and creating a more horizontal management structure, we will stay in closer touch with customers and be able to respond rapidly to changes in the marketplace.

In IT investment, from June 2000 we have started introducing new administrative systems in each facility, targeting more knowledge-based management and greater efficiency. By providing our R&D organization with a higher quality and quantity of feedback from customers, we believe this new system will also contribute to the development of more hit games.

**Q** What progress have you made in your "scrap and build" program?

**A** We are continuing to raise profitability by scrapping old facilities and opening new ones. With plans to close unprofitable or low-margin facilities during the fiscal years ended March 31, 2000 and 2001, we have completed the closing of 71 facilities. We will continue to close facilities while keeping a close watch on market trends.

At the same time, we have introduced stricter criteria for opening new facilities, including an expected internal rate of return (IRR) of at least 20%, to improve return on investment. Currently our emphasis is on large-scale multi-functional facilities in shopping centers, which provide stable returns. Capital and financial investment, including new facilities, will be held to within the range of the segment's cash flows.



**Q** What are your views on overseas business?

**A** Our overseas strategy for amusement facility operations is focused on reinforcing the strong Namco brand while at the same time attracting a wider customer base through the development of integrated restaurant and amusement facilities. In the United States, we aim to open XS Entertainment facilities by spring 2001 as our core large-scale format.

Amusement facilities will remain the core business for the Namco Group, and the key will be to enhance the entertainment value.

## Our strategy for reforming our R&D activities

**Q** What are the main issues for Namco's R&D program?

**A** Namco's vision for entertainment in the 21st century is embodied in the slogan "net and borderless." This refers to the constant technological advancements of home videogame hardware as functions become more advanced. The equipment and gaming are extending beyond the traditional range of the genre, and as consoles feature Internet access, the next step is the development of network games.

Borderless also refers to increased compatibility between home videogames and arcade games, with the advanced capabilities of home game machines now allowing high-grade data transfers. The compatibility of Sega's Dreamcast with Naomi and Sony's PlayStation 2 with System 246 are excellent examples.

Borderless gaming will be realized when the borders separating hardware genres—arcade game machines, mobile appliances, home videogame consoles and so forth—disappear. For example, games in progress from home videogame equipment can already be transferred to arcade games equipped with the Slot Link System via Sony's PocketStation or Sega's Visual Memory devices.

In network games, we believe titles with Internet access will achieve greater market penetration and become steady sellers, leading to links with arcade games and home videogame consoles. Compatibility with mobile appliances will be another key to future success.

**Q** What areas will Namco focus on amid such diversification of the amusement market?

**A** All of the trends we have discussed so far—progress in hardware capabilities, increasingly advanced and complex software development and diverse hardware platforms—are advancing rapidly. These factors are driving increased costs and causing concerns about lower development efficiency.

Namco, however, has substantial knowhow and accumulated game content, with a solid foundation in development technologies. We released



*Ridge Racer V* and *Tekken Tag Tournament* for PlayStation 2 early on, and we are proud to contribute to new platforms with popular titles.

As part of our future strategy, we have restructured our R&D organization. Our new system is more flexible and better able to achieve synergies between home videogames and arcade games. These measures have enhanced our development strength and improved efficiency. We are now able to accelerate title development with considerations for linkage, game conversion and cooperative development. Furthermore, we are targeting greater efficiency and lower costs by integrating research, development, planning and production.

Namco is enhancing development capabilities both inside and outside of the Company. These efforts include the establishment of a development subsidiary, Monolith Software Inc., which is creating role-playing games for the PlayStation 2 platform. The company's first title is scheduled for release in December 2001 with a sales target of 1 million units.

In the United States, we acquired Virtual Music Entertainment Inc. and established the wholly owned subsidiary MusicPlayground Inc., which set up the world's first real time, interactive music Web site, [musicplayground.com](http://musicplayground.com), in fall 2000.

To foster computer graphics developers, we established the Namco Digital Hollywood Game Lab for graduates of Digital Hollywood. We expect this enterprise to contribute talented creators to the amusement industry.



**Q** Has there been any significant changes to Namco's operating strategy?

**A** Expansion of our multi-platform strategy remains in place. However, as increased hardware capabilities create the need for more resources to be devoted to software development, we must carefully select platforms and keep in close touch with the markets to release the right title for the right platform at the right time. This is essential in order to maximize earnings. We intend to raise efficiency throughout the Namco Group through this selection and guidance. The Namco Group is prepared to respond rapidly and appropriately as new platforms enter the marketplace, including Internet games.

**Q** How is Namco responding to the development of network games?

**A** In April 2000, we established the Web & Mobile Content Project Team to strengthen our efforts in this area. While promoting content distribution over mobile communications networks, including NTT DoCoMo, Inc.'s "i-mode," which we have already begun, we are developing network-related technologies and considering ways to adapt titles to the on-line market. Other areas of investigation include partnerships with leading Internet companies.

At Namco, we consider the advent of network games to be the equivalent of a new hardware platform, and we are responding as part of our multi-



platform strategy. Regardless of the infrastructure category, we intend to provide optimal content in the optimal package. At the same time, we are developing a profitable business model with the aim of creating a new earnings pillar for the Group.

We are refocusing on our vision for the 21st century through the creation of "High Touch Digital Entertainment." The ultimate goal of our pursuits is the realization of a humanistic analog-based world through the understanding that digital technology is the most effective means of achieving success.

Making full use of digital technology to realize this dream, we will pursue the realization of an analog-based world in the 21st century, the "Era of Spirituality," and build new entertainment services. Our R&D organization holds the key to these efforts.

By building on our strengths in developing software titles tailored to the special characteristics of each platform, we aim to make Namco the leading entertainment content provider.

Notes: 1. System 246 is the Namco-developed board for the conversion of games developed for Sony's PlayStation 2 to arcade games. It comprises the core PlayStation 2 board developed by Sony Computer Entertainment Inc. and Namco's interface board.  
2. Digital Hollywood is a multimedia school operated by Digital Hollywood Corp. Graduates are active in the computer game industry and other fields.

In summer 1999, *Tekken Tag Tournament* brought great excitement to

amusement centers throughout Japan. This latest version will also ap-

# Graphics Technology

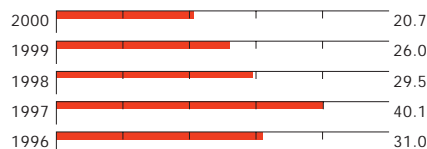
pear as a home videogame title with the kind of expression and ren-

dering that could only have been made possible by the release of the PlayStation 2.

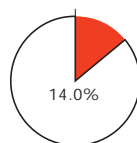


## Management's Discussion and Analysis

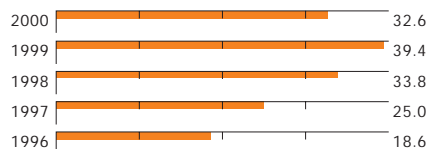
Net Sales  
(Billions of yen)



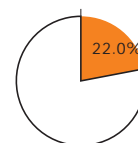
Share of  
Net Sales



Net Sales  
(Billions of yen)



Share of  
Net Sales



### Coin-Operated Game Machines

Namco Group manufactures and markets arcade machines in the world marketplace with vertically integrated activities from development to manufacturing and marketing. The parent company manufactures machines and markets products in Japan, other Asian markets and Oceania, as well as managing licensing and merchandise spin-offs. Shanghai Namco Ltd., accounted for by the equity method, also manufactures and markets game machines and parts for the Chinese market, with a portion of its output purchased by Namco. Namco America Inc. of the United States is responsible for the American market, and Namco Holding Corp. manages licensing and merchandise spin-offs in the region. In Europe, Namco Europe Ltd., based in the United Kingdom, manufactures and markets Namco's arcade machines. Namco Europe is also responsible for the markets of Africa and the Middle East. Namco Ireland Ltd., which had also manufactured and marketed arcade machines in the region, sold its manufacturing facility in December 1999 and has ceased operations.

In July 1999, Namco released *Tekken Tag Tournament*, comprising the full cast of characters of the Company's popular *Tekken* series, and *Quick & Crash*, which uses superior electro-mechatronic technology to offer a unique arcade experience. In December 1999, Namco released the shooting game *Crisis Zone*, the latest model in the *Time Crisis* series, simultaneously on world markets to become a hit product. Namco also partnered with a karaoke and music business company to release such music games as *Million Hits*, *Quest for Fame* and *Guitar Jam*, and made full use of its marketing network to sell machines of other manufacturers.

Despite these efforts, the fiscal year under review was characterized by restrained capital investment among arcade operators and restructuring in the industry. Consequently, net sales for the segment declined 20.4% to ¥20,668 million. The segment accounted for 14.0% of the Company's net sales, compared with 17.8% in the previous term.

### Home Videogame Software

Development efforts for home videogame software, centered on titles for Sony's PlayStation, the dominant platform in world markets, are engaged in both the adaptation of popular arcade games for home use and the creation of original titles. Business is organized to fully consider the cultural, geographic and timing differences of world markets. The parent company produces and markets software for the Japanese, European and other Asian markets, and Namco Hometek Inc. produces and markets titles for the North American market under license from the parent company.

In April 2000, Namco established the Web & Mobile Content Project to develop electronic distribution capabilities for consumer game software. The project aims to develop new business via NTT DoCoMo, Inc.'s "i-mode" mobile network service and to prepare for opportunities related to the Internet connection of next-generation platforms.

During the fiscal year under review, Namco released a number of hit titles for the Sony PlayStation, including the successful release of *Ace Combat 3 —electrosphere—*, the latest version of the popular *Ace Combat* series in the domestic market, and *Pac-Man —World 20th Anniversary—*, which was developed by Namco Hometek.



(From left to right)  
*Quick & Crash*, *Um  
Jammer Lammy Now!*,  
*Quest for Fame*, *Guitar  
Jam*, *Crisis Zone*

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# RIDGE RACER V

Thanks to the PlayStation 2 platform, with this latest version of the

# Balanced Development



*Ridge Racer* series, all the specifications have been upgraded to realize



amazing quality. The expression of the car body, realistic backgrounds



and vehicle movement pursue reality to its limits, all of which gives play-



ers a more powerful gaming experience than the original *Ridge Racer* when



it appeared on the market.





Above: (From left to right) *Nai-Nai no Meitantei*, *Star Ixiom*, *Dragon Valor*, *Pac-Man World—20th Anniversary—*,  
Below: (From left to right) *World Stadium 4*, *Rescue Shot*, *Tekken Tag Tournament*, *Ace Combat 3 — electrosphere—*, *Soul Calibur*

Namco also released *Soul Calibur* for Sega's Dreamcast during the fiscal year, the Company's first title for the Dreamcast. The title not only contributed to the market penetration of this next-generation platform, it also received the Programming Award of the Japan Entertainment Awards from the Computer Entertainment Software Association (CESA).

For the PlayStation 2, Namco released *Ridge Racer V* to coincide with the release of the hardware. This title contributed to the social phenomenon of nascent PlayStation 2 marketplace. After the initial release, Namco released *Tekken Tag Tournament*, which eased concerns about a lack of popular titles for the PlayStation 2 platform and contributed to Namco's sales during the term.

As a new form of software distribution, Namco took a stake in PlayStation.com (Japan), Inc. and began sales of videogame software over the Internet.

In related products, our Official Guidebook series recorded favorable performance.

In Europe, Namco released *Ridge Racer Type 4* and *Ace Combat 3 —electrosphere—* and continued to market popularly priced versions of past hits, such as *Tekken 2 Platinum* and *Time Crisis Platinum*.

Amid weak consumer spending in Japan and the transition between existing hardware and next-generation platforms, net sales for the segment declined 17.4% to ¥32,558 million. The segment accounted for 22.0% of the Company's net sales, a decrease of 5.1 percentage points.

## Amusement Facility Operations

In Japan, Namco had 1,370 facilities at fiscal year-end, including 440 directly managed arcades, two theme parks and 928 facilities where the Company's amusement machines were operated under revenue sharing agreements.

New openings were concentrated on highly profitable large-scale facilities. Namco is continuing the nationwide development of Namco Wonder City, a multifunctional entertainment format that includes restaurants and karaoke facilities, and Namco Wonder Park, designed to be a core tenant of shopping centers. Major facilities established during the fiscal year under review included the NamcoLand Jusco Sakudaira and the NamcoLand Hiratsuka. At fiscal year-end, there were eight Namco Wonder City complexes and ten Namco Wonder Parks in operation. Development of large-scale facilities and urban theme parks is undertaken in close cooperation with Group company Italian Tomato Ltd., which provides cafes and other dining options for visitors.

Namco closed 43 facilities during the fiscal year under review as part of its strategy to raise profitability amid weak market conditions in the arcade industry by closing unprofitable facilities.

Performance of the urban theme park Namco Wonder Eggs 3 benefited substantially from the coordinated promotion of the annual Nikotama Festival, together with merchants along the Tokyu railway line. Given this success, Namco intends to extend such promotions to facilities other than its theme parks. The Company's other domestic theme park, Namco NamjaTown, introduced a new attraction that uses the PocketStation terminals of





In our amusement facility operations, we aim to create an entirely new

# Nostalgic Wonderland



concept for arcades, called a "community arcade," to be competitive

in the new age. Players can compete or cooperate with people in

other locations, expanding the possibilities for arcades to include

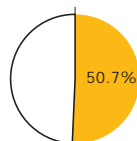
other regions.



Net Sales  
(Billions of yen)



Share of  
Net Sales



Sony Computer Entertainment Inc. and marked its four millionth visitor in August 1999 since opening in July 1996.

In the United States, Namco Cyberertainment Inc., raised profitability by strengthening its profit and financial structure through reorganization. However, with weak market conditions similar to those in Japan, the company continued to aggressively close unprofitable outlets, closing 32 facilities during the term. Future strategy will emphasize new kinds of entertainment facilities, including amusement complexes with integrated restaurants, while raising investment efficiency through revenue sharing operations.

At fiscal year-end, Namco had 626 facilities in North America, of which 289 were directly managed arcades and 337 were amusement facilities where Namco's amusement machines were operated under revenue sharing arrangements.

In Europe, Namco Group's network of Namco Stations, which are large-scale amusement facilities, recorded favorable performance. In April 1999, the Namco Station in Majadahonda, Spain, began full-scale operations following its grand opening. To raise capital efficiency, Namco Operations Europe Ltd. closed the Wonder Park on Great Windmill Street in London and sold the land and building during the fiscal year under review.

After reviewing prospects for profitability of arcade operations in Israel, Namco Group decided to withdraw from the market by transferring its share of Namco Operations F.E.C. Israel Ltd. to its local partner.

At fiscal year-end, Namco had 23 facilities in Europe, of which 9 were directly managed arcades and 14 were amusement facilities where Namco's amusement machines were operated under revenue sharing arrangements.

In China, Namco is active mainly in Hong Kong and Shanghai, and has extended its presence to Guilin, a representative tourist destination in southern China, Dalian and Shenzhen. In Singapore, Namco withdrew from the arcade market and liquidated its local subsidiary Namco Amusement Singapore Private Ltd.

At fiscal year-end, amusement facilities in Asia totaled 30, comprising 16 directly managed arcades and 14 facilities where Namco's amusement machines were operated under revenue sharing arrangements.

Namco Group's amusement facilities at fiscal year-end totaled 2,049 worldwide, consisting of 754 directly managed arcades, 1,293 facilities where Namco's amusement machines were operated under revenue sharing arrangements, and two theme parks.

Net sales for the segment declined 1.5% to ¥75,119 million, or 50.7% of the Company's net sales.

## Restaurant Operations

Restaurant operations are conducted by Italian Tomato Ltd., a chain of Italian restaurants and cake shops, I&K Co., Ltd., which operates Italian Tomato Cafe Jr. self-service restaurants, and T&E Co., Ltd., which supplies boxed lunches primarily to corporate clients.

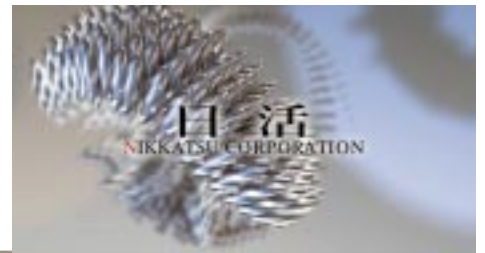
Although business conditions for restaurant operations continued to be adversely affected by weak consumer spending, the closing of unprofitable restaurants in the

Above: (From left to right) Namco Wonder Park Hakata and Namco Wonder Park Inazawa  
Below: (From left to right) Namco Station County Hall (London) architect's image, interior view, exterior view and the Namco Station Club Card





Namco is working to raise the profitability of its



restaurant business, led by the Italian Tomato chain, and realize syner-

# Total Entertainment

gies with arcade operations. Our efforts in movies are lead by

Nikkatsu, currently emerging from reorganization. These business ar-

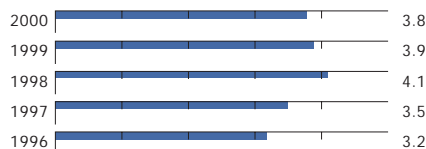
capabilities and contribute to our concept of "total entertainment."



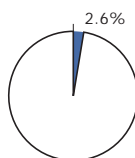
©2000 DORA-HEITA PROJECT



Net Sales  
(Billions of yen)



Share of  
Net Sales



previous fiscal year contributed to higher profitability. Outlets at fiscal year-end totaled 263, comprising 60 directly managed outlets and 203 franchise outlets.

Restaurant operations recorded net sales of ¥3,808 million, a decline of 2.0%.

## Movies and Graphics

Nikkatsu Corporation, which is undergoing reorganization under the Company Reorganization Law of Japan, made further progress in its reorganization plan and was included in consolidation for the first time during the fiscal year under review. The Nikkatsu production "*Buena Vista Social Club*" became a long-running hit after its release in January 2000, and after the close of the fiscal year in May 2000, the company released the period film "*Dora-Heita*" (Diary of a Town Magistrate) to widespread acclaim.

To strengthen its movie theater network, Nikkatsu opened a directly operated theater within the Namco Wonder Park Hakata in the Bus Terminal Building adjacent to the Hakata station in Fukuoka Prefecture. The company intends to continue to expand its *Cine Libre* theaters nationwide.

The segment, which was established in the previous fiscal year, recorded net sales of ¥7,321 million during the fiscal year under review, accounting for 4.9% of the Company's net sales.

## Other

The other segment includes the results of newly consolidated subsidiaries Namco Trading Ltd., which imports and markets clothing and equipment, and Yunokawa Kanko Hotel Co., Ltd., which operates a resort hotel in Hokkaido.

Net sales in the segment were ¥8,592 million, making up 5.8% of the Company's net sales.



## Scope of Consolidation

The consolidated financial statements include the accounts of Namco Limited and 26 major subsidiaries. In addition, one subsidiary is accounted for using the equity method.

In accordance with changes to generally accepted accounting principles in Japan, the Company adopted the principle of effective control in determining the scope of consolidation for the fiscal year under review. Six companies were added to consolidation as a result of this change: Nikkatsu Corporation, Yunokawa Kanko Hotel Co., Ltd., Wonder Seven Co., Ltd., St. Tropez Co., Ltd., Mil Ltd. and Namcot Ltd. In addition, Namco Trading Ltd., which had previously been accounted for by the equity method, was fully consolidated owing to an increase in the company's importance to Group results. Three companies that were consolidated in the previous fiscal year were removed from consolidation: Namco Amusement Singapore Private Ltd., which was liquidated owing to the decision to withdraw from the arcade market in Singapore, Namco Operations F.E.C. Israel Ltd. following a free transfer of shares to a local partner, and Dream Pictures Studio U.S.A. Inc., owing to its effective cessation of operations.

## Analysis of Sales

Consolidated net sales increased 1.8% to ¥148,066 million, as contributions from newly consolidated subsidiaries offset declines in major segments amid weak consumer spending in Japan and contractions in the arcade market in Japan and overseas.

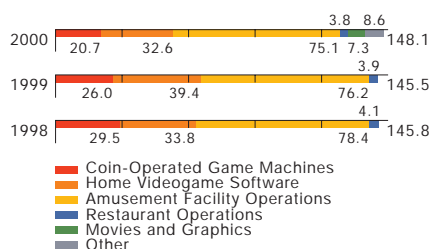
**namco**  
ECOTECH



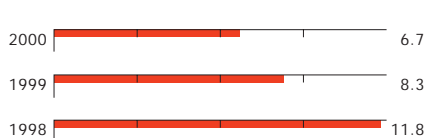
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Above: The interior of an Italian Tomato restaurant (left) and a portion of the foods offered (right)  
Below: (From left to right) The logo of Namco Ecolotech, the logo of Monolith Software and a scene from the movie "*Sleeping Bride*"

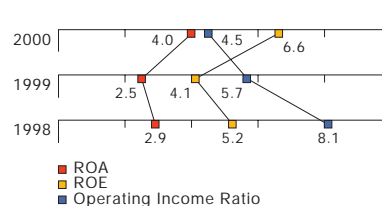
**Net Sales by Segment**  
(Billions of yen)



**Operating Income**  
(Billions of yen)



**ROA, ROE and Operating Income Ratio**  
(%)



Lower sales in Europe and the adverse affects of exchange rate movements led to a 14.7% decline in overseas net sales to ¥44,507 million, or 30.1% of total net sales, compared with 35.8% during the previous term. By region, the Americas accounted for 59.9% of overseas net sales, Europe 32.5% and Asia and Oceania 7.6%. Domestic sales increased 10.9% to ¥103,558 million, or 69.9% of the total.

## Analysis of Net Income

Cost of sales edged up 1.0% to ¥113,131 million, and the gross profit margin improved 0.6 percentage point compared with the previous fiscal year to 23.6%. However, selling, general and administrative (SG&A) expenses grew 11.7% to ¥28,214 million, and SG&A expenses as a percentage of net sales increased from 17.4% to 19.1%. Research and development expenses were ¥9,513 million, an increase of 3.7%. The operating income ratio worsened 1.2 percentage points to 4.5%, and operating income fell 18.8% to ¥6,720 million.

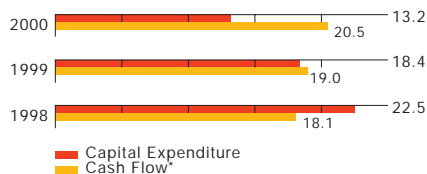
Sales by Segment	Millions of yen		
	1998	1999	2000
Coin-Operated Game Machines	¥ 29,518	¥ 25,968	¥ 20,668
Home Videogame Software	33,770	39,434	32,558
Amusement Facility Operations	78,371	76,229	75,119
Restaurant Operations	4,102	3,886	3,808
Movies and Graphics	—	—	7,321
Other	—	—	8,592
<b>Total</b>	<b>¥145,761</b>	<b>¥145,517</b>	<b>¥148,066</b>

Overseas Sales*	Millions of yen		
	1998	1999	2000
Overseas Sales	¥ 50,552	¥ 52,151	¥ 44,507
Net Sales	145,761	145,517	148,066
Percentage of Net Sales	34.7%	35.8%	30.1%

\* Overseas sales include exports and sales by overseas subsidiaries.

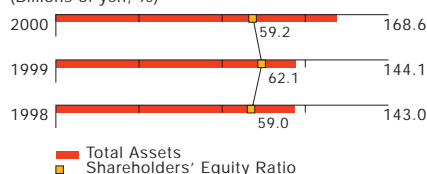
Operating Income by Segment	Millions of yen		
	1998	1999	2000
Coin-Operated Game Machines	¥ 2,344	¥ (1,668)	¥ 370
Home Videogame Software	12,496	15,560	9,822
Amusement Facility Operations	1,001	(779)	573
Restaurant Operations	(6)	(53)	80
Movies and Graphics	—	(294)	(168)
Other	—	—	375
Elimination	201	(5)	(289)
<b>Total</b>	<b>¥ 16,036</b>	<b>¥ 12,761</b>	<b>¥ 10,763</b>
Unallocated Administrative Expenses	4,264	4,490	4,043
<b>Operating Income</b>	<b>¥ 11,772</b>	<b>¥ 8,271</b>	<b>¥ 6,720</b>

**Capital Expenditure and Cash Flow**  
(Billions of yen)



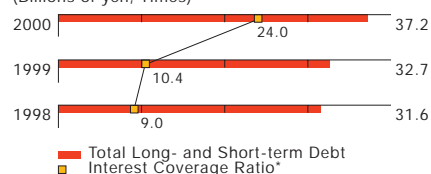
\* Cash flow equals net income plus depreciation and amortisation, minus dividends and bonuses to directors and statutory auditors.

**Total Assets and Shareholders' Equity Ratio**  
(Billions of yen, %)



■ Total Assets  
■ Shareholders' Equity Ratio

**Total Long- and Short-term Debt and Interest Coverage Ratio**  
(Billions of yen, Times)



■ Total Long- and Short-term Debt  
■ Interest Coverage Ratio\*

\* Interest coverage ratio equals income before income taxes plus interest expense, divided by interest expense.

By segment (excluding unallocated administrative expenses), the amusement facility operations segment recorded operating income of ¥573 million, compared with operating loss of ¥779 million in the previous term, as restructuring measures begun in the previous term began to show results. The coin-operated game machines segment also returned to profitability on the operating income level, recording operating income of ¥370 million, compared with an operating loss of ¥1,668 million a year earlier. In the home videogame software segment, operating income declined 36.9% to ¥9,822 million as a result of lower net sales. Restaurant operations recorded operating income of ¥80 million compared with an operating loss of ¥53 million in the previous fiscal year. The movies and graphics segment recorded an operating loss of ¥168 million, and the other segment recorded operating income of ¥375 million.

Other income increased ¥6,876 million to ¥10,039 million, owing mainly to a gain on sales of marketable securities of ¥4,825 million and a gain on the sales of property and equipment of ¥4,110 million, which mainly resulted from the sale of land and facilities held by Nikkatsu Corp. Other expenses increased ¥568 million to ¥4,088 million, as a ¥293 million decline in interest expense was offset by higher other expenses. For details, see Note 9 to the Consolidated Financial Statements.

The increase in other income offset lower operating income, and income before income taxes climbed 60.1% to ¥12,671 million. Income taxes were ¥6,383 million, and the effective tax rate was 50.4%, compared with 54.9% during the previous fiscal year, as the Company adopted tax-effect accounting beginning with the fiscal year under review. Net income grew 76.3% to ¥6,288 million. The number of shares outstanding at fiscal year-end was 55,068 thousand, an increase of 0.4% from a year earlier as a result of the conversion of convertible bonds. Fully diluted net income per share of common stock was ¥109.06, compared with ¥62.24 in the previous term. Management maintained cash dividends applicable to the year at ¥30.00 per share.

## Analysis of Cash Flows and Financial Position

Net cash provided by operating activities declined ¥4,565 million to ¥16,578 million. Depreciation and amortisation decreased 7.9% to ¥15,889 million.

Net cash used in investing activities declined ¥23,096 million to ¥7,852 million, mainly due to the absence of a redemption of convertible bonds of ¥9,535 million recorded in the previous fiscal year, and proceeds from sale of property, plant and equipment of ¥10,490 million and proceeds from sale of investments in securities of ¥5,538 million in the fiscal year under review. In addition, capital expenditure declined ¥6,857 million, or 37.2%, to ¥11,574 million reflecting continued reductions in capital investment for amusement facilities.

Net cash used in financing activities was ¥16,265 million, compared with net cash provided by financing activities of ¥12,639 million in the previous fiscal year, as the Company used free cash flow to repay bank borrowings.

In aggregate, cash and cash equivalents at end of year declined 15.9% to ¥30,728 million.

Total current assets rose 13.2% to ¥73,266 million, due in part to the effects of newly consolidated subsidiaries. At the same time, total current liabilities decreased 1.1% to ¥38,761 million, mainly the result of lower short-term bank loans. As a result, net working capital grew 35.1% to ¥34,505 million. The current ratio was 1.9 times, compared with 1.7 times a year earlier.

Net property and equipment rose 4.5% to ¥46,293 million, owing mainly to the fixed assets of newly consolidated subsidiaries. Total other assets increased 39.7% to ¥49,008 million, including leasehold deposits of ¥29,807 million, primarily related to the opening of large-scale amusement facilities, an increase of ¥5,101 million, and the addition of ¥4,764 million in non-current collateral deposits, which are restricted deposits used as collateral for the reassessed debt of Nikkatsu Corp. Total assets increased 17.0% to ¥168,567 million.

Interest-bearing debt, defined as short-term bank loans, the current portions of long-term debt, long-term debt and reassessment debt, increased 14.0% to ¥37,217 million, as a result of the inclusion of the reassessment debt of newly consolidated Nikkatsu Corp. in line with its reorganization plan. Total liabilities rose 23.5% to ¥67,387 million.

Net shareholders' equity increased 11.4% to ¥99,774 million mainly owing to growth in retained earnings. The equity ratio at fiscal year-end was 59.2%, compared with 62.1% a year earlier.

Return on average total assets increased 1.5 percentage point to 4.0%, and return on average total equity rose 2.5 percentage points to 6.6%.

# Consolidated Balance Sheets

NAMCO LIMITED AND SUBSIDIARIES  
31ST MARCH, 1999 AND 2000

Assets	Millions of yen		Thousands of U.S. dollars (Note 2)
	1999	2000	2000
<b>Current assets:</b>			
Cash	¥ 35,274	¥ 34,833	\$ 328,149
Marketable securities (Note 3)	1,278	3,881	36,562
Trade receivables	13,949	17,520	165,049
Allowance for doubtful accounts	(299)	(275)	(2,591)
Inventories (Note 4)	9,652	10,072	94,885
Deferred income taxes	1,460	820	7,725
Other current assets	3,399	6,415	60,433
Total current assets	64,713	73,266	690,212
<b>Property and equipment:</b>			
Amusement machines and facilities	91,394	91,863	865,407
Buildings and structures	6,194	10,412	98,088
Machinery and equipment	11,088	12,141	114,376
Land	5,560	9,409	88,638
Construction in progress	102	466	4,390
Accumulated depreciation	(70,024)	(77,998)	(734,790)
Net property and equipment	44,314	46,293	436,109
<b>Other assets:</b>			
Investments in:			
Non-consolidated subsidiaries and affiliates	3,435	291	2,741
Other securities (Note 3)	215	818	7,706
Leasehold deposits (Note 5)	24,706	29,807	280,801
Goodwill	1,457	1,188	11,192
Long-term prepaid expenses	1,919	1,697	15,987
Deferred income taxes	150	2,877	27,103
Non-current collateral deposit	—	4,764	44,880
Other non-current assets	3,211	7,566	71,277
Total other assets	35,093	49,008	461,687
Total assets	¥144,120	¥168,567	\$ 1,588,008

See accompanying notes to consolidated financial statements.

Liabilities and Shareholders' Equity	Millions of yen		Thousands of U.S. dollars (Note 2)
	1999	2000	2000
<b>Current liabilities:</b>			
Short-term bank loans	¥ 19,560	¥ 11,311	\$ 106,557
Current portion of long-term debt (Note 6)	36	2,105	19,830
Trade payables	10,069	11,462	107,979
Other payables	2,827	3,637	34,263
Accrued income taxes	944	2,488	23,439
Accrued expenses	3,423	3,676	34,630
Other current liabilities	2,315	4,082	38,455
Total current liabilities	39,174	38,761	365,153
<b>Long-term debt (Note 6)</b>	13,052	12,365	116,486
<b>Reassessment debt</b>	—	11,436	107,734
<b>Accrued retirement allowances</b>	1,912	2,276	21,441
<b>Other long-term liabilities</b>	416	2,549	24,014
Total liabilities	54,554	67,387	634,828
<b>Minority interest in consolidated subsidiaries</b>	—	1,406	13,246
<b>Shareholders' equity (Note 7):</b>			
Common stock of ¥50 par value:			
Authorised—120,000,000 shares			
Issued—55,068,347 shares (1999—54,828,509 shares)	26,997	27,369	257,833
Additional paid-in capital	26,027	26,399	248,695
Retained earnings	37,143	46,383	436,958
Total shareholders' equity	90,167	100,151	943,486
Less costs of common shares of treasury stock	601	377	3,552
Net shareholders' equity	89,566	99,774	939,934
<b>Contingent liabilities (Note 11)</b>			
Total liabilities and shareholders' equity	¥144,120	¥168,567	\$ 1,588,008

NAMCO LIMITED AND SUBSIDIARIES  
YEARS ENDED 31ST MARCH, 1999 AND 2000

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Shareholders' Equity

NAMCO LIMITED AND SUBSIDIARIES  
YEARS ENDED 31ST MARCH, 1999 AND 2000

	Millions of yen		Thousands of U.S. dollars (Note 2)
	1999	2000	2000
<b>Common stock:</b>			
Balance at beginning of year	¥25,147	¥26,997	\$ 254,329
Conversion of convertible bonds	1,850	372	3,504
Balance at end of year	¥26,997	¥27,369	\$ 257,833
<b>Additional paid-in capital:</b>			
Balance at beginning of year	¥24,179	¥26,027	\$ 245,191
Conversion of convertible bonds	1,848	372	3,504
Balance at end of year	¥26,027	¥26,399	\$ 248,695
<b>Retained earnings:</b>			
Balance at beginning of year	¥35,365	¥37,143	\$ 349,911
Cash and cash equivalents on beginning balance			
arising from additions of subsidiaries	—	3,245	30,570
Carry-back adjustments of income taxes	—	1,419	13,367
Net income	3,566	6,288	59,237
Appropriations:			
Cash dividends	(1,623)	(1,638)	(15,431)
Bonuses to directors and statutory auditors	(165)	(74)	(697)
Balance at end of year	¥37,143	¥46,383	\$ 436,957

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

NAMCO LIMITED AND SUBSIDIARIES  
YEARS ENDED 31ST MARCH, 1999 AND 2000

	Millions of yen		Thousands of U.S. dollars (Note 2)
	1999	2000	2000
<b>Cash Flows from Operating Activities:</b>			
Net income	¥ 3,566	¥ 6,288	\$ 59,237
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortisation	17,251	15,889	149,684
Gain on sale of property, plant and equipment	—	(4,110)	(38,719)
Gain on sale of marketable securities	—	(4,825)	(45,455)
Loss on disposal of property, plant and equipment	2,135	350	3,297
Devaluation loss on securities	84	271	2,553
Deferred income taxes	—	1,354	12,756
Other non-cash items	312	1,448	13,641
Changes in operating assets and liabilities:			
Trade receivables	2,248	(2,486)	(23,420)
Inventories	2,445	874	8,234
Trade payables	(3,461)	605	5,699
Accrued income taxes	(1,533)	1,544	14,545
Accrued expenses	(210)	(230)	(2,166)
Other, net	(1,529)	(320)	(3,015)
Other payments	(165)	(74)	(696)
Net cash provided by operating activities	21,143	16,578	156,175
<b>Cash Flows from Investing Activities:</b>			
Change in time deposits, net	—	(4,024)	(37,908)
Capital expenditure	(18,431)	(11,574)	(109,034)
Redemption of convertible bond	(9,535)	—	—
Increase in investments in securities	658	(3,415)	(32,171)
Decrease in monetary claims in trusts	250	—	—
Proceeds from sale of investments in securities	(3,335)	5,538	52,171
Proceeds from sale of property, plant and equipment	—	10,490	98,822
Increase in non-current collateral deposits	—	(3,361)	(31,663)
Purchase of common shares of treasury stock	(265)	224	2,110
Other, net	(290)	(1,730)	(16,298)
Net cash used in investing activities	(30,948)	(7,852)	(73,971)
<b>Cash Flows from Financing Activities:</b>			
Bank borrowings, net	14,262	(13,521)	(127,376)
Repayment of reassessment debt	—	(1,107)	(10,429)
Cash dividends paid	(1,623)	(1,638)	(15,431)
Other, net	—	1	9
Net cash provided by (used in) financing activities	12,639	(16,265)	(153,227)
<b>Effect of exchange rate changes on cash and cash equivalents</b>	—	(429)	(4,041)
<b>Net increase (decrease) in cash and cash equivalents</b>	2,834	(7,968)	(75,064)
<b>Cash and cash equivalents at beginning of year</b>	33,718	36,552	344,343
Marketable securities	—	(1,278)	(12,039)
Term deposits maturing after three months	—	(80)	(754)
Cash and cash equivalents on beginning balance arising from additions of subsidiaries	—	3,502	32,991
	33,718	38,696	364,541
<b>Cash and cash equivalents at end of year</b>	¥ 36,552	¥ 30,728	\$ 289,477

See accompanying notes to consolidated financial statements.



# Notes to Consolidated Financial Statements

NAMCO LIMITED AND SUBSIDIARIES  
31ST MARCH, 1999 AND 2000

## 1. Basis of Financial Statement Presentation and Summary of Significant Accounting Policies

The accompanying consolidated financial statements have been prepared from the accounts maintained by Namco Limited in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with accounting principles and practices generally accepted in Japan, which may differ in some material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In preparing the accompanying financial statements, certain reclassifications have been made in order to present them in a form which is more familiar to readers outside Japan.

In addition, the notes to the consolidated financial statements include information which is not required under accounting principles and generally accepted in Japan but is presented herein as additional information.

The Company and its domestic subsidiaries maintain their books of account in conformity with generally accepted accounting principles in Japan, and its foreign subsidiaries in conformity with those of the United States and other generally accepted accounting principles, based on where the subsidiaries are incorporated. No adjustments have been reflected in the accompanying consolidated financial statements to present the accounts of the foreign subsidiaries in compliance with Japanese accounting principles as followed by the Company. However, it is the opinion of the management of the Company that the accounting principles followed by the foreign subsidiaries do not substantially differ from those followed by the Company, except for methods of depreciation and amortisation of property and equipment and goodwill.

Significant accounting policies are as follows:

### (a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and of its significant subsidiaries, whether directly or indirectly controlled. All significant intercompany balances and intercompany transactions have been eliminated on consolidation.

In order to facilitate consolidation, subsidiaries mainly adopt an annual fiscal period that ends on the last day of February.

The Company has applied the equity method, after elimination of unrealised intercompany profit, for investments in non-consolidated subsidiaries and significant affiliates.

At 31st March, 2000, 85.71% of Nikkatsu Corporation's shares are owned by the Company. The main business of Nikkatsu is the production and distribution of cinema films in Japan. Nikkatsu was consolidated in the consolidated financial statements from this year.

### (b) Statements of Cash Flows

In accordance with the change of accounting standards for statements of cash flows in Japan, effective April 1, 1999, cash and cash equivalents exclude marketable securities and term deposits maturing after three months. As a result, the

balance of cash and cash equivalents at the end of the year in 2000 exclude term deposits of ¥4,105 million which mature after more than three months.

### (c) Marketable Securities and Investments

Listed securities are stated at the lower of cost or market on an individual basis, cost being determined by the moving-average method. Other securities are stated at cost, determined by the moving-average method.

### (d) Inventories

Inventories of the Company and the domestic subsidiaries are stated at cost, determined by the moving-average method, adjusted for any substantial and permanent decline in value. Inventories of the foreign subsidiaries are stated at the lower of cost (principally first in, first out) or market (net realisable value).

### (e) Property and Equipment

Property and equipment are stated at cost. Depreciation is computed for all depreciable assets of the Company and the domestic subsidiaries by the declining-balance method and for all depreciable assets of the foreign subsidiaries by the straight-line method, at rates based on estimated useful lives of the assets according to general class, type of construction, and use.

Repairs and maintenance which do not improve or extend the life of the related assets are expensed currently.

### (f) Goodwill

Goodwill represents the excess of the purchase price over the fair market value of net assets acquired in business combinations. Goodwill incurred by foreign subsidiaries in the United States is amortised using the straight-line method over 15 years. Goodwill incurred by the Company and the domestic subsidiaries is charged to income when incurred.

### (g) Research and Development Expenses

Research and development expenses are charged to income as selling, general and administrative expenses of the period in which they are incurred. When the management of the Company indicates its intention to produce and market a product, related research and development expenses are accounted for as production costs of the product.

### (h) Retirement Benefits

Under the Company's and its domestic subsidiaries' employees' retirement plan, employees are entitled to receive lump-sum or periodic payments based on length of service and current basic salary. Amounts payable under the plan are provided by a funded pension plan. Amounts payable to employees who are not covered by the pension plan are provided by unfunded retirement allowances.

While the Company has no legal obligation, it is customary practice in Japan to make lump-sum payments to directors or statutory auditors upon retirement, with the approval of

shareholders at the annual shareholders' meeting. According to established guidelines, the amount of such allowance is computed based upon payment factors determined by position and length of service as director or statutory auditor. Amounts required under the plan have been provided by unfunded retirement allowances, of which, the balances at 31st March, 1999 and 2000 were ¥1,909 million (U.S.\$17,984 thousand) and ¥1,859 million (U.S.\$17,513 thousand), respectively.

The foreign subsidiaries have defined benefit pension plans that provide pension benefits to substantially all employees.

#### (i) Income Taxes

The Company records income taxes currently payable based upon the determination of taxable income.

#### (j) Translation of Foreign Subsidiaries' Financial Statements

The accounts of the foreign subsidiaries are translated into yen at current exchange rates—that is, the rates in effect at the end of the year.

#### (k) Net Income and Cash Dividends per Share

In computing primary net income per share, the average number of shares of common stock outstanding during each year has been used.

The computation of fully diluted net income per share reflects the effect of common shares contingently issuable upon the conversion of convertible bonds as if such bonds had been converted at the beginning of the year or at the time of issue in the case of newly issued bonds after giving effect to the elimination of interest expenses, less income tax effect, applicable to the convertible bonds.

Cash dividends per share represent dividends declared for the respective year.

## 2. U.S. Dollar Amounts

The financial statements presented herein are expressed in yen and, solely for the convenience of the readers, have been translated into United States dollars at the rate of ¥106.15 = U.S.\$1, the approximate exchange rate at 25th June, 2000.

This translation should not be construed as a representation that all amounts shown could be converted into U.S. dollars.

## 3. Marketable Securities and Investments

Marketable securities and investments in other securities at 31st March, 1999 and 2000 are summarised as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Marketable securities:			
Listed corporate shares	¥1,278	¥3,881	\$36,561
Investments in other securities:			
Listed corporate shares	¥ 1	¥ 8	\$ 75
Non-listed corporate shares	214	810	7,631
	¥ 215	¥ 818	\$ 7,706

The market value of listed securities exceeds book value.

## 4. Inventories

Inventories at 31st March, 1999 and 2000 are summarised as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Merchandise	¥ 705	¥ 921	\$ 8,677
Products	3,155	3,606	33,971
Raw material	2,998	1,417	13,349
Work in process	1,866	3,070	28,921
Supplies	928	1,058	9,967
	¥9,652	¥10,072	\$94,885

## 5. Leasehold Deposits

Leasehold deposits at 31st March, 1999 and 2000 are summarised as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Deposits for amusement facility operations and restaurant operations	¥23,006	¥23,982	\$225,926
Deposits for office space	1,524	1,525	14,366
Other deposits	176	4,300	40,509
	¥24,706	¥29,807	\$280,801

Such leasehold deposits do not bear interest and are generally refundable when the lease is terminated.

The Companies conduct amusement facility operations and restaurant operations on properties leased from lessors under long-term lease contracts. Lease expenses for amusement facility operations and restaurant operations for the years ended 31st March, 1999 and 2000 amounted to ¥21,015 million (U.S.\$197,975 thousand) and ¥19,916 million (U.S.\$187,621 thousand), respectively.

## 6. Long-term Debt

Long-term debt at 31st March, 1999 and 2000 is summarised as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
0.8% unsecured convertible bonds due 28th September, 2001 convertible into common stock at ¥3,106 per share	¥ 3,587	¥ 3,091	\$ 29,119
0.9% unsecured convertible bonds due 30th September, 2003 convertible into common stock at ¥3,106 per share	7,426	7,178	67,621
Bank loans	2,075	4,201	39,576
	13,088	14,470	136,316
Less current portion	36	2,105	19,830
	¥13,052	¥12,365	\$116,486

For the benefit of the holders of the 0.8% and 0.9% convertible bonds, the Company has agreed that the aggregate amount of payments of cash dividends may not exceed ¥4,400 million (U.S.\$41,451 thousand) plus the aggregate

amount of net income of the Company starting from the year ended 31st March, 1995.

## 7. Shareholders' Equity

The Japanese Commercial Code requires that at least 50% of the issue price of new shares be transferred to the common stock account, provided 50% of the issue price is greater than the par value of common stock. In accordance with such requirement, 50% of the proceeds from the new shares issue based upon the conversion of convertible bonds was transferred to the common stock account and the remaining 50% was credited to additional paid-in capital.

The Commercial Code provides that an amount equal to at least 10% of the amount to be disbursed as distribution of retained earnings be appropriated as a legal reserve until such reserve equals 25% of stated capital.

Additional paid-in capital and legal reserve are not available for dividends but may be used to reduce a deficit or may be transferred to stated capital.

Cash dividends, directors' and statutory auditors' bonuses and appropriations to the legal reserve charged to retained earnings during the years ended 31st March, 1999 and 2000 represent dividends and bonuses paid out during such period and the related appropriations to the legal reserve.

The accompanying consolidated financial statements do not include any provision for a dividend of ¥15 per share aggregating ¥824 million (U.S.\$7,763 thousand) and bonuses to the directors and statutory auditors aggregating ¥40 million (U.S.\$377 thousand) declared in June 2000 nor for the related appropriation to legal reserve amounting to ¥90 million (U.S.\$848 thousand).

## 8. Research and Development Expenses

Total research and development expenses for the years ended 31st March, 1999 and 2000 amounted to ¥9,170 million (U.S.\$86,387 thousand) and ¥9,510 million (U.S.\$89,590 thousand), respectively and ¥5,640 million (U.S.\$53,123 thousand) of ¥9,170 million and ¥5,540 million (U.S.\$52,190 thousand) of ¥9,510 million were charged to the selling, general and administrative expenses in 1999 and 2000, respectively.

## 9. Other Expenses

The composition of other expenses—other for the years ended 31st March, 1999 and 2000 was as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	2000	2000
Devaluation loss of securities	¥ 84	¥ 271	\$ 2,553
Inventory write down	1,325	1,160	10,928
Foreign exchange loss	376	148	1,394
Amortisation of goodwill	155	124	1,168
Long-term prepaid expense	286	—	—
Loss on disposal of property, plant and equipment	—	350	3,297
Consolidated adjustment account	—	501	4,720
Minority interest in consolidated subsidiaries	—	209	1,969
Other	450	774	7,292
	¥2,676	¥3,537	\$33,321

## 10. Income Taxes

The Company is subject to a number of taxes based on income which, in the aggregate, result in a statutory tax rate of approximately 42% (48% in 1999).

## 11. Contingent Liabilities

At 31st March, 1999 and 2000 contingent liabilities for loans guaranteed by the Company principally on behalf of affiliates amounted to ¥1,789 million (U.S.\$16,854 thousand) and nil balance, respectively.

In the opinion of management of the Company, it is not anticipated that substantial loss will result from these contingencies.

## 12. Stock Option Plan

In June 1997, the Company's shareholders approved a stock option plan (the 1997 plan), which permitted the Company to grant options for up to 115,000 shares of its common stock to all directors (except chairman and chief executive officer) and eligible key employees. The 1997 plan is exercisable from 1st April, 1998 to 31st March, 2001, and the option price per share was set at ¥4,165 on the date the options were granted.

In addition, on 27th June, 1998, shareholders approved a stock option plan (the 1998 plan), which permitted the Company to grant options for up to 119,000 shares of its common stock to all directors (except chairman and chief executive officer) and eligible key employees. The 1998 plan is exercisable from 1st July, 2000 to 30th June, 2003, and options may be granted at a price of 105% of the average market value in the month preceding the date the option is granted.

A summary of changes in common stock options during 2000 is as follows:

	1997 plan No. of shares	1998 plan No. of shares
Outstanding at 1st April, 1997	—	—
Granted on 27th June, 1997	115,000	—
Exercised	—	—
Cancelled	(1,000)	—
Outstanding at 31st March, 1998	114,000	—
Granted on 27th June, 1998	—	119,000
Exercised	—	—
Cancelled	(2,500)	(1,500)
Outstanding at 31st March, 1999	111,500	117,500
Exercised	(81,000)	—
Cancelled	(1,500)	(3,000)
Outstanding at 31st March, 2000	29,000	114,500

## 13. Segment Information

### (a) Business Segment Information

The Companies operate in five business segments, as indicated below. Certain corporate administrative expenses have not been allocated to segments due to the nature of the expense.

	Millions of yen						
	Business segments					Corporate Items	Consolidated
	Amusement Facility Operations	Coin-Operated Game Machines	Home Videogame Software	Restaurant Operations	Movies and Graphics		
<b>1999:</b>							
Net sales to customers	¥76,229	¥25,968	¥39,434	¥3,886	¥ —	¥ —	¥145,517
Intersegment sales	44	1,258	—	73	—	(1,374)*	—
Total net sales	76,273	27,226	39,434	3,959	—	(1,374)	145,517
Operating income	(779)	(1,668)	15,560	(53)	(294)	(4,495)**	8,271
Identifiable assets	68,220	17,235	9,696	2,811	1,587	44,571	144,120
Depreciation and amortisation	15,161	1,043	434	100	23	490	17,251
Capital expenditure	16,427	931	493	106	210	264	18,431

	Millions of yen							
	Business segments							
	Amusement Facility Operations	Coin- Operated Game Machines	Home Videogame Software	Restaurant Operations	Movies and Graphics	Other	Corporate Items	Consolidated
2000:								
Net sales to customers	¥75,119	¥20,668	¥32,558	¥3,808	¥ 7,321	¥ 8,592	¥ —	¥148,066
Intersegment sales	264	438	24	82	16	205	(1,029)*	—
Total net sales	75,383	21,106	32,582	3,890	7,337	8,797	(1,029)	148,066
Operating income	573	370	9,822	80	(168)	375	(4,332)**	6,720
Identifiable assets	62,720	15,933	14,826	2,676	19,106	16,125	37,181	168,567
Depreciation and amortisation	13,229	796	474	93	286	225	786	15,889
Capital expenditure	10,893	733	619	104	386	46	411	13,192

\* Elimination of intersegment sales

\*\* Includes unallocated administrative expenses of ¥4,490 million in 1999 and ¥4,043 million in 2000

#### (b) Geographical Segment Information

Summarised data for the Companies' operations (sales within Japan and outside Japan) is as follows:

	Millions of yen			
	Within Japan	Outside Japan	Corporate Items	Consolidated
<b>1999:</b>				
Net sales to customers	¥108,106	¥37,411	¥ —	¥145,517
Intersegment sales	4,633	944	(5,577)*	—
Total net sales	112,739	38,355	(5,577)	145,517
Operating income	10,191	2,359	(4,279)**	8,271
Identifiable assets	75,944	23,897	44,279	144,120
<b>2000:</b>				
Net sales to customers	¥115,324	¥32,742	¥ —	¥148,066
Intersegment sales	3,978	177	(4,155)*	—
Total net sales	119,302	32,919	(4,155)	148,066
Operating income	8,271	2,799	(4,350)**	6,720
Identifiable assets	111,676	21,097	35,794	168,567

\* Elimination of intersegment sales

\*\* Includes unallocated administrative expenses of ¥4,490 million in 1999 and ¥4,043 million in 2000

#### (c) Overseas Sales Information

Overseas sales of the Companies for the years ended 31st March, 1999 and 2000 amounted to ¥52,151 million (35.8% of consolidated net sales) and ¥44,507 million (30.1% of consolidated net sales).

## Independent Auditors' Report



The Board of Directors and Shareholders  
Namco Limited

We have audited the consolidated balance sheets of Namco Limited and consolidated subsidiaries as of 31st March, 1999 and 2000, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements, expressed in yen, present fairly the consolidated financial position of Namco Limited and consolidated subsidiaries at 31st March, 1999 and 2000, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended 31st March, 2000 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.

*Century Ota Showa Co.*

Tokyo, Japan

26th June, 2000

*See Note 1 to the consolidated financial statements which explains the basis of preparing the consolidated financial statements of Namco Limited under Japanese accounting principles and practices.*

## Corporate Data

### Corporate Headquarters

NAMCO LIMITED  
2-1-21, Yaguchi, Ota-ku, Tokyo 146-8655, Japan  
Tel: 03-3756-2311  
Fax: 03-3757-2553

### Date of Establishment

June 1, 1955

### Number of Employees (Parent Company)

2,387 (*As of June 30, 2000*)

### Number of Shareholders

14,540 (*As of March 31, 2000*)

### Listing of the Company's Shares

First Section of the Tokyo Stock Exchange

### Independent Certified Public Accountants

*Century Ota Showa & Co.*  
The Japan Red Cross Bldg.  
1-3, Shiba Daimon 1-chome, Minato-ku,  
Tokyo 105-8535, Japan

## Directors and Statutory Auditors

### Chairman and Chief Executive Officer

Masaya Nakamura\*

### Executive Vice President

Ryuji Hashiguchi\*

### Senior Managing Director

Kyushiro Takagi

### Managing Directors

Masahiro Tachibana\*  
Yasuhiko Asada  
Keiji Tanaka  
Shukuo Ishikawa  
Akiyoshi Sarukawa

### Director

Koichiro Homma

*(The above directors serve as division executives)*

### Statutory Auditors

Shigeru Yamada  
Nobuo Okabe  
Toshinori Hayashida  
Mitsuo Ichikawa

### Senior Division Executive

Kunio Kawakami

### Division Executives

Shigeichi Ishimura  
Kazunori Sawano  
Hirofumi Tashiro  
Tsugio Kinoshita  
Jun Higashi  
Seiichi Hirota  
Yutaka Asakage  
Yoshitaka Yamauchi  
Yoichi Haraguchi  
Mamoru Ikezawa  
Akira Osugi  
Shigeru Yokoyama

*(As of June 30, 2000)*

*\*Representative Directors*

## Corporate Directory

### **Namco Limited**

Corporate Headquarters  
2-1-21, Yaguchi, Ota-ku, Tokyo 146-8655, Japan  
Tel: 81-3-3756-2311 Fax: 81-3-3756-3003

### **Namco Holding Corp.**

2055 Junction Avenue, San Jose, CA 95131, USA  
Tel: 1-408-383-3900 Fax: 1-408-383-0128

### **Namco America Inc.**

2055 Junction Avenue, San Jose, CA 95131, USA  
Tel: 1-408-383-3900 Fax: 1-408-383-0128

### **Namco Hometek Inc.**

2055 Junction Avenue, San Jose, CA 95131, USA  
Tel: 1-408-922-0712 Fax: 1-408-321-0520

### **Namco Cybertainment Inc.**

877 Supreme Drive, Bensenville, IL 60106-1106, USA  
Tel: 1-630-238-2200 Fax: 1-630-238-0560

### **XS Entertainment Inc.**

c/o: Namco Cybertainment Inc.

### **Musicplayground Inc.**

3 Riverside Drive, Andover, MA 01810, USA  
Tel: 1-978-688-8800 Fax: 353-62-51702

### **Namco Europe Ltd.**

Namco House, Acton Park Estate, The Vale, London  
W3 7QE, U.K.  
Tel: 44-20-8324-6000 Fax: 44-181-324-6010

### **Namco Operations Europe Ltd.**

Namco House, Acton Park Estate, The Vale, London  
W3 7QE, U.K.  
Tel: 44-20-8324-6150 Fax: 44-181-324-6170

### **Namco Operations Spain S.L.**

c/Buenavista, 3, 28220, Majadahonda, Madrid, Spain  
Tel: 34-91-634-29-61 Fax: 91-634-31-12

### **Namco Operations France S.A.**

29, Rue Cartier Bresson, 93500 Pantin, France  
Tel: 33-1-49910792 Fax: 33-1-49910840

### **Namco Operations Germany GmbH**

Centro-Allee 267 46047 Oberhausen, Germany  
Tel: 49-208-805-656 Fax: 49-208-805-183

### **Namco Enterprises Asia Ltd.**

Shop p501, Podium 5, World Trade Center,  
280 Gloucester Road, Causeway Bay, Hong Kong  
Tel: 852-2516-6610 Fax: 852-2561-3887

### **JPN-Namco Taiwan Co., Ltd.**

Room No. 302, 3F, No. 79, Sec. 2, Chung Shan North  
Road, Taipei, Taiwan, R.O.C.  
Tel: 886-2-2542-8968 Fax: 886-2-2556-0665

### **Shanghai Namco Ltd.**

No. 258-23, Caoshi Road, Shanghai, 200233, China  
Tel: 86-21-6495-3248 Fax: 86-21-6451-9840

### **Monolith Software Inc.**

1-1-32, Shinurashima-cho, Kanagawa-ku, Yokohama  
221-0031, Japan  
Tel: 81-45-450-2227 Fax: 972-3-9692235

### **Italian Tomato Ltd.**

9-6-24, Akasaka, Minato-ku, Tokyo 107-0052, Japan  
Tel: 81-3-3404-2681 Fax: 81-3-3404-2881

### **I&K Co., Ltd.**

9-6-24, Akasaka, Minato-ku, Tokyo 107-0052, Japan  
Tel: 81-3-3404-2891 Fax: 81-3-3404-2881

### **T&E Co., Ltd.**

1273-1, Aoyagi, Ichihara, Chiba 299-0102, Japan  
Tel: 81-436-23-2701 Fax: 81-436-23-3191

### **Namco Trading Ltd.**

2-9-22, Tamagawa, Ota-ku, Tokyo 146-0095, Japan  
Tel: 81-3-5741-5031 Fax: 81-3-5741-5033

### **Mil Ltd.**

2-1-21, Yaguchi, Ota-ku, Tokyo 146-8655, Japan  
Tel: 81-3-3756-1851 Fax: 81-3-5741-5033

### **Wonder Seven Ltd.**

3-10-10, Akasaka, Minato-ku, Tokyo 107-0052, Japan  
Tel: 81-3-5562-5200 Fax: 81-3-5741-5033

### **St. Tropez Ltd.**

3-10-10, Akasaka, Minato-ku, Tokyo 107-0052, Japan  
Tel: 81-3-5562-5400 Fax: 81-3-5741-5033

### **Dream Pictures Studio Inc.**

2-1-21, Yaguchi, Ota-ku, Tokyo 146-8655, Japan  
Tel: 81-3-3756-8523 Fax: 81-3-5741-5033

### **Nikkatsu Corp.**

3-28-12, Hongo, Bunkyo-ku, Tokyo 113-0033, Japan  
Tel: 81-3-5689-1002 Fax: 81-3-5689-1046

### **Yunokawa Kanko Hotel Co., Ltd.**

2-4-20, Yunokawa-cho, Hakodate, Hokkaido 042-0932, Japan  
Tel: 81-138-57-1188 Fax: 81-138-57-4700

### **Namco Ecolotech Ltd.**

2-9-22, Tamagawa, Ota-ku, Tokyo 146-0095, Japan  
Tel: 81-3-5482-7211 Fax: 65-339-3537

*(As of June 30, 2000)*



*Amusement to Entertainment*  
**namco®**

**NAMCO LIMITED**

2-1-21, YAGUCHI, OTA-KU, TOKYO 146-8655, JAPAN

<http://www.namco.co.jp/>

南夢宮

